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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Honorable Governor and Honorable Members of the State Legislature  
State of Delaware, Department of Transportation  
Dover, Delaware:

We have audited the financial statements of the State of Delaware Department of Transportation (the Department) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008, which noted that the Department implemented GASB 45. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the State of Delaware Department of Transportation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be



material weaknesses. However, we believe that neither of the significant deficiencies described above is a material weakness.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State of Delaware Secretary of Transportation, management, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, Department of Finance and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

December 16, 2008

# STATE OF DELAWARE DEPARTMENT OF TRANSPORTATION

## Schedule of Findings and Responses

Year ended June 30, 2008

### **2008-1. Accounting for Capital Assets and Infrastructure**

#### ***Prior Year Observation***

In order to calculate the ending capital asset balances for the Department's financial statements, the Department uses various spreadsheets as well as expense reports from its general ledger system to calculate the balance of capital assets and infrastructure. The Department does not currently have a capital asset subsidiary ledger that can roll-forward all of the elements typically contained in capital asset records, including identification, location, historical cost, acquisition date, useful life, depreciation, accumulated depreciation, and funding source.

The application of the modified approach to infrastructure requires determining if capital program expenditures are for preservation and maintenance or additions to the capacity of infrastructure. The Department currently has a sub-appropriation code in its general ledger system that tracks infrastructure additions so expenses can be coded correctly when they relate to infrastructure; however, this coding has been inconsistently applied.

#### ***Current Year Status***

During the current fiscal year, the Department has developed and implemented an "Infrastructure Project Classification Policy." As a result of the policy, all projects were reviewed for conformance with the policy. The review identified several projects that had elements of both additions to capacity of the infrastructure as well as preservation and maintenance.

#### ***Recommendation***

We continue to recommend that the balances of capital asset infrastructure be centrally managed in a capital assets subsidiary ledger with the capability to track additions and dispositions and, when necessary, to calculate depreciation.

We further recommend that the Department refine the guidelines in the new "Infrastructure Project Classification Policy" to clearly establish the procedures for allocating project costs between capital assets and expenses. The policy should draw on guidance provided in GASB Statement No. 34 and the GASB Statement No. 34 Implementation Guide.

#### ***Management's Response***

Management will work with department staff in the Technology unit to determine the ability to track capital infrastructure assets in a manner more conducive to the recommendations provided in this report. A particular focus will be on the automation of the current asset summary sheet which allows for updates on an annual basis. Additionally, the Department will review infrastructure assets and compare to the Capital Transportation Program on an annual basis. This review will result in the tracking of projects which have transitions between Increased Capacity to Maintenance and Prevention.

It is anticipated that a thorough review of the project numbering system will allow for the maintenance of projects to be tracked through the new ERP Accounting System separately from the construction project.

# STATE OF DELAWARE DEPARTMENT OF TRANSPORTATION

## Schedule of Findings and Responses

Year ended June 30, 2008

### **2008-2. Financial Reporting**

#### ***Prior Year Observation***

The Department has contracted for the past several years with an outside CPA firm to compile its financial statements for the Transportation Trust Fund, for the Delaware Transit Corporation, and for the consolidated Delaware Department of Transportation entity.

The process used to obtain the necessary information for balances outside of the Transportation Trust Fund is not clearly documented, does not occur on a clear timetable, and relies heavily on one individual to provide information requested by the contractor for compilation purposes. Financial statement items impacted include receivables, payables, and capital assets, including infrastructure assets.

Additionally, there is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions.

#### ***Current Year Status***

There is no change to the prior year observation.

#### ***Recommendation***

We recommend that the Department develop, for the 2009 audit cycle:

- A detailed list of balances (other than those in the Transportation Trust Fund and Delaware Transit Corporation) and what detailed reports, supporting schedules, and other documentation are needed to support the compilation of financial statements and disclosures related to those balances
- A specific timetable of when each of the detailed reports, supporting schedules, and other documentation will be completed
- Interim review process to evaluate data before year end to identify any issues and correct them before year end close
- A periodic monitoring process to ensure the timetable is adhered to

We further recommend that the Department consider whether the current level of staffing is appropriate to:

- Disperse responsibility for specific reports, schedules and documentation to others within the accounting function
- Provide for an independent review of information for completeness, accuracy and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor
- Review data throughout the year for completeness and accuracy

# STATE OF DELAWARE DEPARTMENT OF TRANSPORTATION

## Schedule of Findings and Responses

Year ended June 30, 2008

### ***Management's Response***

Management acknowledges the fact that the task associated with organizing and managing the details and reports for this audit are complex and detailed. The current level of staff continues to be a major problem for this effort. Unfortunately, a continued hiring freeze and lack of knowledge/expertise by other staff members has impeded the efforts to provide support to the current effort. Management will continue to work with the Human Resources Unit to identify opportunities for enhancing both expertise and staff levels. Additionally, the Finance Unit will work with the Audit Unit for assistance and guidance on automating many of the needed reports and data elements. It is anticipated that effort for the FY09 Audit will improve.